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# Pipeline Politics and Energy (In)security in Central and South-Eastern Europe

General Survey

Pipeline Politics and Energy (In)security

Dr Eamonn Butler

## Introduction

This essay concerns energy security, or more specifically energy insecurity, in Central and South-Eastern Europe. Insecurity can be defined as a situation in which vulnerability from a particular danger or threat is perceived to exist. Threats generally come from external sources, but can also come from within, and usually have an existential quality. Energy is existential in that it underpins modern life—we use it to provide power, heat and light to our homes, workplaces and cities; to fuel our cars and other forms of transport; to help produce and power technology; and even to help us grow and process the food we eat. Energy is a critical resource and as such it is a commodity of significant strategic importance, particularly with regard to access. The main concern that has driven the rise of energy insecurity has been ‘security of supply’. This refers to the ability of states and other users to guarantee sources of affordable energy, sufficient to meet their needs across all economic and business, societal and even politico-military activities. Energy insecurity exists when internal actions, those by third parties, or even natural disasters, threaten to, or actually do, disrupt the supply or affordability of energy.

Energy insecurity is not unique to Central and South-Eastern Europe. The region shares many concerns with other parts of Europe and states across the globe. However, because of the historic legacies of the region’s communist past, some of the vulnerabilities and threats it faces are more pronounced. For example, the region is highly dependent on imports of fossil fuels such as petroleum and natural gas, with some states importing as much as 60%–100% of their needs from a single supplier, the Russian Federation. (Other than Romania, nearly all Central and South-Eastern European states are dependent on natural gas imports, with almost 100% of requirements imported by Belarus, Bosnia and Herzegovina, Bulgaria, the Czech Republic, Estonia, Lithuania, the former Yugoslav republic of Macedonia—FYRM, Moldova, Serbia, Slovakia and Slovenia.) Monopolization of the market by Russia, as the primary supplier, means that long-term bilateral export-import contracts tend to be less favourably priced, resulting in higher energy costs. The mix of energy types used by states in the region is considered to be less diverse than in Western Europe, meaning that any disruption to their primary energy type could be problematic. This is especially so when it is acknowledged that the region’s import infrastructure is dominated by static pipelines built during the Soviet era and that integration with Western European infrastructure is limited. Without suitable alternative energy access or adequate storage any problem with the pipelines, or with the source of gas (or oil) entering the pipeline system, can have serious consequences for import-dependent states.

The importance of pipelines cannot be underestimated. They have provided the Central and South-Eastern European region with access to oil and gas for decades, and this has determined how the region obtains much of its energy needs. Until recently, the situation was more challenging for natural gas because the expense and lack of technical capability to liquefy and regasify natural gas meant that its transportation was only realistically capable via pipelines. Since, as a liquid, oil could be transported via tankers, oil pipelines were not as critical, although they remain by far the cheapest and quickest means to transport oil, and the most suitable for some of the region’s landlocked countries. As a result of these issues,

Central and South-Eastern Europe is considered to be the most vulnerable region of Europe with regard to energy security. Even those countries with substantial domestic energy sources, such as Poland (coal and lignite), have become increasingly reliant on imports of low-carbon fuels like natural gas, as they seek to meet the strict climate change targets introduced by the European Union (EU) for the reduction of CO<sub>2</sub> emissions. Much of this natural gas has also been imported by pipelines. In order better to understand how pipeline politics plays a role in creating challenges and vulnerabilities for Central and South-Eastern Europe's energy security, as well as informing policy solutions, we need to consider the region's relations with its primary and potential energy suppliers, such as Russia, and with its partners in the wider EU.

## **Energy and the EU**

In Europe, until recently, there has been a growing demand for energy. It is considered that energy consumption levels within the EU peaked around 2005 (when gross inland energy consumption reached 1,824.7m. metric tons of oil equivalent, according to Eurostat figures, compared with 1,671.1m. tons in 1995 and 1,627m. tons in 2015), and improved efficiency of energy use was predicted to result in further reductions in energy consumption. In comparison with the EU as a whole, energy consumption levels of the Central European countries peaked much earlier than those of their Western counterparts. However, by 2035 domestic production of primary fossil fuels was also predicted to decline: of oil, by 57%; of coal, by 49%; and of natural gas, by 46%. As a result, it is assumed that energy imports will remain constant to cover around 55% of consumption, while natural gas imports will increase by around 49%. This means that the EU is likely to remain the world's largest net importer of natural gas. It is important to note, however, that the levels of imports are not balanced across all the EU member states, and some countries import much more than those others that have domestic resources available.

In 2016, the EU imported 54% of all the energy it consumed. This figure has steadily increased since 2000 when the dependency rate on energy imports was 47%. Crude oil makes up the bulk of imported energy equating to some 69% in 2017, while combined liquefied and gaseous natural gas made up 22.7%, with solid fuels (coal, lignite, coke, peat) equating to 6.3%. The majority of these imports come from a small group of countries—the Russian Federation, Norway, Algeria and Qatar. Because of the nature of the EU's infrastructure and geographic proximity each of these supplier countries tends to direct their products to specific clusters of EU member states. As already mentioned, the countries of Central and South-Eastern Europe are predominantly supplied by Russia. When energy imports are concentrated among a few supplier states, there is an increased risk of vulnerability should external matters result in disruption to supply and sufficient alternative mechanisms to counter that disruption are not in place. For a number of the countries of Central and South-Eastern Europe this is exactly what happened in 2006, and again in 2009, when Russia suspended gas sales to Ukraine—one of the primary transit routes for Russian gas imports. These two Russia–Ukraine gas crises, and the fact that the majority of the countries of the region are now members of the EU, is often used to explain why the EU has become more involved in energy matters and why energy has increasingly become an area of integration activity at the EU level.

Matters are a little more complex, however. Energy has always been important for the European integration project, from its foundation as the European Coal and Steel Community, through the establishment of, in turn, the European Atomic Energy Community (Euratom), the Energy Charter Treaty, and the Energy Community, and an Energy Union, a Framework Strategy for which was adopted by the European Commission in February 2015. There have always been ebbs and flows in the intensity of policy development, but since the 1990s and early 2000s interest in energy has grown significantly at the EU level. Import dependency has not been the only factor behind this rapid expansion of energy interests. The promotion of market liberalization and growing concern for environmental matters and climate change have also been hugely important. This tripartite justification for the increased interest in energy

can also be used to explain the EU's securitization of energy. It is necessary to recognize that there has also been a fluctuating hierarchy of importance across these three drivers.

In the early 2000s it was very much the last two factors (market liberalization and the climate agenda) that were most significant. Questions about supply did exist, but it is important to note that they tended to be framed in the context of market forces, and were about ensuring affordable supplies and improving the connectivity of market infrastructure to ensure regular supplies at reasonable prices amid growing demand. Diversification of suppliers was primarily about opening the market to competitive forces and preventing monopolistic pricing structures. This is not to say that questions over transit routes or reliability of suppliers were not a concern, rather that they were not the priority. Fears about unreliable suppliers 'turning off the tap' were not on the agenda, and Russia was more or less regarded as a safe and secure supply partner.

Central and South-Eastern European countries fell in line with this general EU position and this was evident in the language they used at the time. Acutely aware of energy challenges primarily stemming from their time under communist regimes, and in advance of their accession to the EU, the Central European countries initiated co-operative efforts to support their integration into the wider EU energy market. For example, in 2002 the Visegrad Group (V4—comprising the Czech Republic, Hungary, Poland and Slovakia), under the presidency of Hungary, initiated the V4 Energy Working Group to support the economy ministries in the V4 countries in the improvement of co-operation across the energy sector. The main purpose was to improve information exchange in support of market liberalization across the region, speed up privatization strategies, and ensure the maintenance and expansion of storage facilities—all demands posed by the EU to the Central European candidate states. Improved interconnections with Western Europe were also recognized as necessary to support market integration.

Diversification away from Russian supplies was not considered a rationale for this type of co-operation. When diversification was mentioned it was viewed as 'in addition to', rather than 'instead of', Russian supplies. It was about choice and price. As Hungarian Prime Minister Ferenc Gyurcsány stated, 'Mad would be the country which was happy about depending on a single supplier for the purchase of a strategically important service and product', thus demonstrating the fact that replacing Russia as a single supplier with an alternative would not resolve the fundamental challenges informing energy insecurity. This could be recognized when proposals were put forward in 2002 for a major new pipeline that was intended to open up the EU market to natural gas from the Caspian and Central Asia regions. The consortium behind this project, which became known as the Nabucco Pipeline, initially involved Austria and Turkey, and was soon joined by Hungary, Bulgaria and Romania, demonstrating the importance of these countries as transit states for the proposed pipeline and the opportunity for them to benefit from access to the piped gas. All three countries are highly dependent on Russia for their gas imports and have paid premium prices via take-or-pay contracts with Russia. The assumption was that having additional sources of gas imports would potentially give these countries increased leverage in any future gas contract negotiations.

## **The Emergence of Pipeline politics: Nabucco versus South Stream**

Nabucco was developed in response to the discovery of the Shah Deniz (Şah Deniz) gasfield in the Azerbaijani sector of the Caspian Sea in 1999. Comprising some 330 sq miles, Shah Deniz is one of the largest oil- and gasfields to be discovered in recent years, and it began production in 2006. Nabucco was intended to provide transit of natural gas from this field to Europe and was at first considered a commercial venture, but it was not long before the project took on a political undertone, although for the Russian Federation it always held political connotations.

The Nabucco project was potentially threatening for Russia because it challenged its effective monopoly on gas imports to Europe, specifically Central and South-Eastern Europe. It is not to Russia's advantage if that region, as Russia's largest customer, has alternative suppliers, thus providing an opportunity to bargain on price. For Europe this is exactly what Nabucco was intended to achieve: to increase competition and reduce prices. For the EU and its member states two occurrences served to alter their position towards Nabucco and shift it from being a predominantly commercial venture to a political one.

The first of these was the first Russia–Ukraine gas crisis in 2006, in which disagreement over the price of gas to be paid by Ukraine resulted in the suspension of gas flows from Russia to Ukraine for four days. As Ukraine is the major transit route for gas destined for the EU markets, the disruption to levels of gas, exacerbated by Ukraine allegedly siphoning gas intended for EU countries, resulted in a significant decline in supplies. For some Central European countries this was a serious problem. It highlighted their failure to ensure adequate stored gas supplies and emphasized their over-reliance on Russia as single supplier. Furthermore, the trustworthiness of Russia as a supplier and Ukraine as a transit country, which had previously been accepted, was called into question.

The second matter was the emergence of alternative competitor pipeline projects promoted by Russia. Initially, Russia had suggested an extension of its Blue Stream gas pipeline via Turkey as a way to provide an additional access point for Russian gas into Europe. It eventually decided against this, and in 2007 it announced the South Stream project, which entailed the construction of a pipeline under the Black Sea, through Bulgaria and Serbia, and into Hungary, with the aim of supplying Europe with some 63,000m. cu m of gas per year. For Russia, the purpose of South Stream was two-fold: it sought, first, to reinforce Russia's dominant position as the primary gas supplier to Central and South-Eastern Europe, and second, to open up possible new opportunities by providing Russia with a southern access point to its European markets without the need to transit Ukraine. This would be a good fit with the parallel proposed Nord Stream pipeline under the Baltic Sea, which would directly link Russia to Germany, and provide some 55,000m. cu m of natural gas per year. By establishing both these projects, Russia was essentially claiming that it could remain a viable and reliable partner by providing new transit routes. In so doing, it effectively sought to accuse Ukraine of responsibility for problems with natural gas transit to the EU. South Stream also allowed Russia to present a project as a direct rival to Nabucco and to seek to prevent its monopoly on gas supplies from being eroded too quickly. Russia claimed that South Stream would be more competitive and less expensive to build. It also created uncertainty for possible investors because it raised questions about the sustainability of two competing pipelines.

Russia failed to convince many in Europe that it could be trusted, and rhetoric that made reference to energy as a foreign policy tool, as well as some of the actions undertaken by Russia towards energy-importing and transit states, fuelled the rise of a discourse in Western political, academic and media circles emphasizing 'a new Cold War', 'energy wars' and an 'energy weapon'. Energy had become highly political. In the southern corridor space, the Nabucco and South Stream pipeline projects were suddenly framed as Europe versus Russia, thus emphasizing political tensions. Inevitably, it was less straightforward than this, because principal EU member and candidate states from Central and South-Eastern Europe were partners in both projects, thus adding to the complexity of the situation.

None the less, what became apparent in Europe during this time is a clear shift in the framing of energy as a security concern, with pipeline politics perceived as a crucial element in this development. A second Russia–Ukraine gas crisis in 2008–09 reinforced concerns about security of energy supplies for Europe and specifically for the Central and South-Eastern European countries. However, the ultimate success of this securitization of pipelines within the wider energy security discourse is questionable.

Nabucco was prioritized as a high-level European project with a clear political and security rationale, and was supported by the EU and the USA. The reason it became so politicized was in part a result of the need to secure political backing and justification for funding support. This was coupled with its

identification as a possible signature project by the European Commission, which was seeking to develop its energy policy competencies, both internally and externally. The Russian–Ukrainian gas crises, the urgency to diversify supplies, and growing concern about Russian use of energy and pipelines as foreign policy tools, allowed the project to be securitized as a means to introduce alternative suppliers, break the Russian monopoly and ultimately curtail Russia’s ability to use energy for political means. The securitization of the Nabucco pipeline project effectively prolonged its existence in a way that would not have happened were it to have been a standard commercial project. Despite this apparent wealth of political support, commercial viability remained fundamental, and no matter how much political backing the project received, if it proved financially unfeasible it would be unable to progress. This is exactly what happened, and Nabucco effectively stagnated as a project. Strangely, this outcome was widely predicted, yet there seemed to be a form of collective denial, and whenever any party, such as some of the more frustrated Central European countries, did suggest that the project was not likely to come to fruition, they were castigated and shamed as being ‘anti-European’, or insufficiently supportive of energy solidarity within the EU.

### **Pipeline Politics: Economic versus Political Rationales**

The need for commercial viability resulted in further competitor pipeline projects emerging to challenge both Nabucco and South Stream. The most significant of these was the Azerbaijani- and Turkish-owned Trans-Anatolian Natural Gas Pipeline (TANAP), which was announced in 2011 and which would effectively replace the need for much of the Turkish section of the original Nabucco project. This forced the Nabucco consortium to re-evaluate their proposal. The rebranding of Nabucco as ‘Nabucco West’ reflected the truncation of the project as a spur pipeline from TANAP through Central and South-Eastern Europe. This revised project looked more achievable and even economically viable, but the ongoing economic crisis and the investment of the State Oil Company of the Azerbaijan Republic (SOCAR) in Greece, where it purchased 66% of the Greek Transmission Network Operator in 2013, may have had an influence on a 2013 decision by the SOCAR-led Shah Deniz consortium to award a contract for the transit of TANAP gas to the Trans Adriatic Pipeline (TAP), rather than to Nabucco West. TAP had initially been proposed as early as 2003 as a pipeline to be constructed through Greece and Albania to Italy, and following the award of the contract, the TANAP consortium purchased shares in TAP, reinforcing it as the official extension of TANAP in Europe. TAP had been placed in direct competition with Nabucco West, which was to run further to the north, as the primary route for the European section of the southern energy corridor.

The political concerns of the countries of Central and South-Eastern Europe and the EU that drove the need for Nabucco were not shared by Azerbaijan and its Shah Deniz-TANAP partners; thus it was not surprising that a more modest project with a seemingly higher investment return was selected. This leads to questions concerning the relationship between commercial activity and political requirements. If something is so important that it warrants the type of prioritization that Nabucco received, then it has to be supported by relevant financial investment for political means. This did not happen for Nabucco, which was predicated by the need to adhere to market-led requirements. Political neutrality is required if the market is to operate as it should. Herein lies the paradox: that energy policy cannot be politically neutral. European countries know this, as does the EU, and when the market is allowed to take precedence, it will adversely affect the ability of national governments to ensure that large infrastructure projects of strategic (if not commercial) importance are fulfilled. This is one of the significant challenges for Europe and for the countries of Central and South-Eastern Europe that need improved infrastructure but are unable always to rely on the market providing it. How can the economics be balanced with the politics?

## **The Problem of South Stream**

The failure of Nabucco West to win the Shah Deniz contract effectively meant that the project became untenable. As a consequence, in order for the southern gas corridor to reach Central and South-Eastern Europe the possible options were either a secondary spur from TAP, perhaps into Bulgaria, or Russia's South Stream project.

Although it was a Russian project, South Stream had the support of a number of the countries of Central and South-Eastern Europe, including Bulgaria, Croatia, Greece, Hungary, the FYRM and Serbia, as well as Italy and Austria. This demonstrates the fact that Russia remains an important strategic partner within the energy sector for these countries. Each of these countries had signed contracts with Russia to complete various primary and secondary parts of the pipeline along its European section. Despite the enthusiasm of the countries of the region for South Stream, the project encountered a number of challenges. These included accusations from the European Commission in December 2013 that the contracts signed between Russia and EU member states, and with Serbia (which, while a candidate country for EU membership, is a member of the Energy Community), were in violation of the EU's Third Energy Package regulations concerning ownership of pipelines by natural gas extractors and the right for third party access to the pipeline. In June 2014 the project was effectively halted, owing to a European Commission infringement procedure against Bulgaria concerning non-compliance with EU procurement requirements. Bulgaria had also been threatened with possible sanctions by the USA, owing to the participation of Russian company Stroitransgaz in the consortium awarded the contract to build the Bulgarian section. At the same time, as for Nabucco previously, there were questions over the financial viability of the project. Competition from other energy projects and sectors (such as the increased adoption and affordability of liquefied natural gas—LNG) was creating a more challenging environment where long-term contracts and fixed pipelines become expensive and inflexible. Ongoing political tensions owing to conflict in eastern Ukraine, following the annexation of the Ukrainian peninsula of Crimea by Russia in March, and the ensuing imposition of Western sanctions on Russia in response, also had a negative impact on the project, and in December 2014 Russia announced that it was to abandon South Stream in favour of a new pipeline project to be developed in co-operation with Turkey.

The new TurkStream pipeline was proposed within the framework of the Russian-Turkish Intergovernmental Commission on Trade and Economic Co-operation. However, following the shooting down of a Russian fighter jet by the Turkish military on the Turkey–Syria border in November 2015 and the subsequent imposition of Russian sanctions against Turkey, which included the suspension of the Intergovernmental Commission, TurkStream was also in effect suspended. It was not clear if there were other rationales for the rapid decision by Russia effectively to freeze this project, but it serves to highlight how geopolitics and energy supply can intersect. The TurkStream project was reinstated in October 2016, following improved political relations between Russia and Turkey. This revival coincided with a cooling of relations between Turkey and Europe and the USA owing to Turkey's role in managing the Syrian refugee and migration crisis and the purges that followed the failed July 2016 coup against President Recep Tayyip Erdoğan. The construction of the two TurkStream pipelines began in May 2017, and the deepwater pipelay for Line 1 was completed in April 2018. It is anticipated that the two Turkstream pipelines, which will cover more than 930km to deliver gas to both Turkey and to southern and south-eastern Europe, will carry 31,500m. cu m of gas annually. For Russia, this will also enable it to maintain its objective of implementing ways to bypass Ukraine and other former Soviet republic transit states.

## Implications for Central and South-Eastern Europe

The cancellation of the Nabucco and South Stream pipelines has had significant implications for Central and South-Eastern Europe within the context of the southern energy corridor. First, it highlights that their perceived energy needs, even when framed in strong security terms, are not strong enough to override financial realities. Economics takes precedence over politics. It also confirms that this part of Europe is likely to remain reliant on the Russian Federation, and that routes via Ukraine are likely to continue to be important for the foreseeable future unless possible new, land-based routes—such as the spurs from TAP—are developed, or defunct projects are reactivated, as has been the case with the TurkStream pipeline. It was confirmed in May 2018 that the second Turkstream pipeline will be directed towards Bulgaria, following negotiations between Bulgaria and Russia. It is hoped that some of the gas from Turkstream 2 will go to Bulgaria's proposed gas hub project at the Black Sea port of Varna. The European Commission supports this hub as a common energy security project for the region. This highlights the fact that projects such as Turkstream will primarily be of benefit to the Central and South-Eastern European region if they can connect to existing or new transit and storage infrastructure. This is the idea behind the proposed Eastring project, which will transport gas from Bulgaria to Slovakia via Romania and Hungary. This project is promoted by the countries involved and has also been designated a Project of Common Interest (PCI) under the guidelines for Trans-European energy infrastructure - Ten Year Network Development Plan. This guarantees the highest level of political support from the European Union for the project and its implementation. To support this the European Commission approved €1m. in financial support from the Connecting Europe Facility for a feasibility study, which is due to be completed by June 2018.

When considered in terms of diversification of supply and access to new suppliers of gas, projects such as Turkstream are potentially problematic for the region because it reinforces continued reliance on Russian gas; however, it has also compelled the countries of Central and South-Eastern Europe carefully to consider new responses to their energy insecurity.

The governments of the countries of Central and South-Eastern Europe have been astute, understanding that their energy security could never be entirely reliant on the southern corridor pipeline projects. Those projects, such as Nabucco or Southstream, if they had come to fruition, might have given some long-term stability of supply, but they would not have resolved the other major problems they face in terms of energy insecurity—specifically their integration into the wider EU energy infrastructure. A north-south corridor had been identified as a major missing link in this infrastructure, allowing connection of various energy systems (gas, oil and electricity grids) from the Adriatic in the south to the Baltic in the north. With the demise of the large project for a southern corridor (not taking TAP or Turkstream into account), this north-south corridor has become even more essential, and specific projects of common interest have been agreed at EU level. Many of these projects will be incorporated into the broader conceptualization of regional energy frameworks. For example, the concept of north-south has been extended to what the EU now terms 'north-south-east', in which the promotion of a series of smaller energy infrastructure projects would allow the development of a connection linking the Baltic, Adriatic and Black Seas. This would be achieved by investing in existing infrastructure and building reverse-flow interconnectors between countries across the region. The countries of Central Europe have been promoting this idea for some time, but until recently it has always taken second priority to the large pipeline projects. As it turns out, it may take a more significant and relevant role in supporting the development of energy security for the region. The fact that these interconnectors allow bi-directional flow should also provide for a sharing of gas resources in times of stress.

Locating sources of financing for these small-scale projects has also been difficult, and the countries of Central and South-Eastern Europe have looked to the EU for financial support. The EU recognizes that there are occasions when such projects need financial support and has been more supportive of this type of project than it has of 'grand pipeline projects' such as Nabucco, because they can be delivered more



quickly and cheaply. This has been part of the reasoning behind the Eastring project which will connect to the , and it has been claimed that the advantage of the pipeline lies in the fact that it is comparable to Nabucco or South Stream in terms of added value for the European energy sector, but deliverable at significantly lower cost. Capital expenditure is estimated at €2,000m. – €2,400m., which is considerably lower than the anticipated cost for Nabucco (up to €14b.) or for South Stream (up to €16b.).

The need to ensure improved infrastructure is also important because it allows the region to benefit from LNG as an alternative to piped gas. The Baltic states (Estonia, Latvia and Lithuania) are a good example of a former ‘energy island’ region that has sought to use LNG as a means of obtaining gas from new suppliers. There have been problems in agreeing the location of LNG terminals in the Baltic region, emphasizing the fact that countries continue to perceive great benefit in being the host of energy facilities. A new LNG terminal has entered into operation in Poland, while on the Adriatic, another was planned in Croatia. Progress towards the construction of the Croatian terminal has been repeatedly delayed, with feasibility studies only being carried out in 2015, despite the proposals having been under consideration for several years. It was intended that the two terminals in Poland and Croatia would ultimately be connected, allowing the north–south corridor to be completed. It is likely that the Croatian terminal, which will be a floating facility, will not be operational until 2020 at the earliest, and will have a capacity of 2,600m. cu m of gas per year, which is lower in comparison with the original proposed landbased terminal. Like other small, regional projects it has benefited from EU funding, receiving €102m. from the EU’s Connecting Europe Facility.

Another way that the countries of Central Europe have sought to improve their energy position has been through increased gas storage. Most of the countries in the region learned a harsh lesson from previous Russia–Ukrainian gas crises, and the concern about a possible reduction in supplies following the annexation of Crimea appeared to justify the efforts to increase storage for critical points of the year. All countries in the region successfully coped with a simulated stress test on their gas supplies undertaken by the European Commission in 2014. Suggestions stemming directly from that exercise, which concluded that improvements to regional infrastructure should be completed more rapidly, led to the establishment of the so-called Central East South Europe Gas Connectivity High Level Group (HLG), which first met in February 2015. The HLG comprises representatives from across the wider Central and South-Eastern European region, including nine EU member states—Austria, Bulgaria, Croatia, Greece, Hungary, Italy, Romania, Slovakia and Slovenia—and six contracting parties to the Energy Community—Albania, Bosnia and Herzegovina, the former Yugoslav republic of Macedonia, Moldova, Serbia and Ukraine. The aim of the group, which has met 4 times since its foundation, is to coordinate facilitation of cross-border and trans-European gas projects and there has as of 2017 been a move to extend the remit of the group beyond regional cooperation on gas.

## **The Return of Pipeline Politics**

The southern energy corridor has without doubt been the scene of some of the more complicated pipeline projects with direct impact on the countries of Central and South-Eastern Europe. It is, however, not the only area of pipeline activity that bears upon the energy concerns of these countries. The Baltic Sea is the location of the Russian- and German-supported Nord Stream pipeline. Becoming operational in 2011, Nord Stream was from its inception in 2005 just as controversial as the pipelines planned in the south. Acting as an alternative transit route for Russian gas into Western Europe, Nord Stream would bypass traditional transit states, including Ukraine, Belarus, Poland, Slovakia and the Czech Republic. This raised considerable concern over the possible loss of transit fees should gas be diverted away from traditional routes. Other concerns that were raised included those focusing on the ecological environment of the Baltic Sea, security issues with respect to the use of the Russian Baltic Fleet for protection of the pipeline, and access to Polish ports.

Unlike Russia's South Stream pipeline, Nord Stream was completed on schedule and its dual pipelines now connect Russia directly with Germany, although it currently only operates at one-half of its capacity (27,500m. cu m), owing to the EU's Third Energy Package third party access requirements, which restrict Gazprom's access to the Ostsee-Pipeline-Anbindungsleitung (OPAL) pipeline that connects Nord Stream with the Czech Republic. Despite this, Russia, recognizing that this pipeline route has been its only successful pipeline project in recent years, identified the route as suitable for expansion and proposed a Nord Stream 2 pipeline project. Completion of the new project would increase operational capacity from 55,000m. cu m to 110,000m. cu m, enabling Russia to fulfil its policy of transit avoidance and potentially to bypass Ukraine in most of its exports to the EU of natural gas. Both the tensions surrounding the continued conflict in the Donetsk and Luhansk regions of eastern Ukraine (which commenced in mid-2014) and the January 2016 decision, by Ukraine's state utility Naftogaz Ukrainy, to increase transit fees for Russian gas by 50%, have reinforced the potential benefits, if not need, of Nord Stream 2 for Russia.

There may be economic or commercial rationales for Russia and its Western energy company partners (Uniper of Germany, Austrian-based OMV, Royal Dutch Shell—of the Netherlands and the United Kingdom, German producer Wintershall Holding GmbH and French utility company Engie) to promote Nord Stream 2, but many countries will doubtless also perceive political rationales. As the President of Lithuania, Dalia Grybauskaitė, expressed: 'It is highly regrettable that our big partners (in Europe) are trying to explain to the EU member states that it [Nord Stream 2] is only a private commercial project. We all are very well aware that all energy projects of this scale are geopolitical, and their goals are precisely geopolitical.' It was this position that was stated in a joint letter, sent in March 2016 by nine EU member states (Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Romania) to Jean-Claude Juncker, the President of the European Commission. They argued that the pipeline failed to reflect the EU's intention, underpinned by the strategy set out for the Energy Union, to diversify energy sources, and therefore posed 'risks for energy security in the region of Central and Eastern Europe, which is still highly dependent on a single source of energy'. This is something that the European Commission has since recognized, and Maroš Šefčovič, the Vice-President of the Commission responsible for the Energy Union, has explicitly stated that Nord Stream 2 would not help to diversify Europe's energy sources. Nord Stream 2 would reinforce European reliance on Russian energy sources and have economic implications for those countries that remained reliant on transit fees, specifically Ukraine. Although it has divided Europe, Nord Stream 2 continues to be considered to represent significant commercial value, and the Western-based firms backing the project have agreed to provide one-half of the financing, with the other one-half coming from Gazprom. Thus, Nord Stream 2 has not had to seek EU financing to be built. This suggests that the relative strength of countries and large corporations correlates with the success of pipeline projects. It highlights an important difference between the north and the south of Europe, with projects such as Nabucco or South Stream failing to be taken seriously because of the limited influence of the countries supporting them, while smaller projects often have to seek strategic EU financial support in order even to move beyond the feasibility stage. More importantly, the geopolitics underpinning projects like Nord Stream 2 helps to create a rather acrimonious situation, pitting the European Parliament, the European Commission and key member states of the EU, as well as Russia, against each other.

The most recent discord has focused on Germany as the primary EU member state partner in the project. German domestic politics has come into play because although Chancellor Angela Merkel has on occasion expressed 'political' doubt about the project, she is also reliant upon the support of the opposition Social Democratic Party (SDP) for her government. There is a belief that the SDP is supportive of Russian business interests, so any move to halt the project might create a political crisis within an already shaky government. Furthermore, German business has expressed concern that if the pipeline is not built then Russia will divert its attention back to the southern European route, via an enhanced Turkstream or even renewed South Stream project. Thus, there could be significant financial business losses for the country and the west European energy companies that have already paid

significant sums of money for the project. This highlights the fact that there remains a potential north-south divide when it comes to the business reality of energy pipeline politics. The private Nord Stream 2 project gained German maritime approval to start construction in March 2018, with Finland providing approval in April 2018 and Sweden in June 2018. The first stage of the pipeline was laid in Germany in May 2018 and it is generally assumed that it is now too late to stop the project which is expected to be completed by the end of 2019. Once completed and operational at full capacity the Nord Stream pipelines would place Germany at the centre of Russian gas imports to Europe, force a West-to-East direction in flow of gas to Central Europe and potentially even lead to higher prices for the region. It is for this reason that the regional projects, such as Eastring or the Croatian LNG terminal have taken on such important significance.

## Conclusion

Amid the collapse of large-scale pipeline projects designed to address the energy insecurity of Central and South-Eastern Europe, smaller practical solutions have appeared to allow the region to respond more effectively and quickly. They are more easily financed and can draw upon significant EU financial aid projects, allowing them to be completed in a more manageable timeframe. As such, they perhaps suggest that the large pipeline projects are not always the best solution to energy insecurity and can actually increase insecurity for Central and South-Eastern Europe. This is certainly the case with regard to the Nord Stream 2 pipeline project, which highlights that for some countries, specifically energy providers such as Russia, pipelines still have value, but that they can come at a cost for others.

Does this mean that the issue of pipeline politics and energy security has been overplayed in Europe? On the one hand, yes, perhaps it has. Enmeshed in a cycle of geopolitical power play, it is easy to overemphasize the security threat to Europe's energy, but, in reality, Europe and the countries of Central and South-Eastern Europe have been able to respond and develop alternative solutions to the challenges confronting them. However, there is more to this story concerning the EU, its member states and its neighbours. Energy will remain one of the areas in which politics continues to be played out, and this has an adverse impact on the ability of the EU to present a united front. The South Stream project clearly demonstrated that EU member states do not necessarily agree with each other about how certain energy projects should evolve. South Stream, prior to its cancellation, proved the existence of a substantive division between EU institutions such as the European Commission and some of the countries of Central and South-Eastern Europe—specifically Hungary and Bulgaria. The differences of opinion between the EU member states of the region and Germany with regard to Nord Stream 2 reflect similar concerns. The rhetoric of member states regularly spills out into the forums provided by the EU institutions, and these institutions increasingly have their own positions to promote. This raises questions about concepts such as energy solidarity in Europe and the commitment of member states to abide by the EU's market regulations in the field of energy. The EU's Energy Union, which was launched in February 2015, was in part established to respond to large-scale controversial and contested pipeline projects as a means of strengthening the security of the energy supply of its members. It is intended to enhance the EU's role in negotiating on behalf of its members, and to improve the concept of solidarity and to promote the free movement of energy through a completely integrated and liberalized market as a 'fifth freedom', alongside the right of establishment and freedom to provide services, and the rights to free movement of goods, workers and capital. Although this should improve the ability of the EU and its member states to engage with Russia and other large suppliers, it is also likely to encounter challenges in doing so if it lacks the support of all of its members. For example, both the Czech Republic and Hungary, despite officially supporting the Energy Union's development, have at different times publicly queried various strategies promoted by the Energy Union to achieve that solidarity.

Although as stated at the beginning of this essay, Central and South-Eastern Europe is considered to be the most vulnerable region in Europe for energy insecurity, the reality is that the level of insecurity may be overemphasized. Certainly, the region has encountered clear problems and the geopolitical and geoeconomic power play surrounding large-scale pipeline projects, including most recently Nord Stream 2, has not helped to lessen that insecurity. The role of pipeline politics is also unlikely to diminish while pipeline projects remain the most beneficial or cost-effective approach for energy suppliers. However, the use of alternative technologies, including LNG and renewables, as well as promoting smaller pipeline interconnector projects and overall greater regional co-operation, has had a positive impact on the region's ability to address some of its energy security challenges. Differences of opinion and policy preferences do remain and national self-interest may still challenge a common EU position, but it is unlikely that the region will in the future again face the same level of energy insecurity that it experienced during the Russia–Ukraine energy crises of 2006 and 2009.

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